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National Association of Purchasing Management

Report On Business®

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New orders make brisk rebound

Price increases break trend

Inventories drop sharply

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The *Report on Business* is based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

March Report

The economy continued to expand in March, although the rate of growth was again somewhat slower than in the previous month, say the nation's purchasing managers in their latest **Report on Business.** Production expanded, but at a slightly slower pace than last month. Even so, the growth rate in new orders increased considerably and suggests a good beginning for the second quarter. Vendor deliveries were slow, but not to the extent of the previous six months, reflecting the slowing production growth rate. Employment changed little from February but, considering normal seasonal variations, actually declined slightly. Inventories declined sharply, reflecting members' persistence in keeping them in line with production requirements. Prices increased, but at a significantly slower rate than in the past five months. Prospects for a reduced trade deficit improved as 41% of those members whose companies export said their export orders were higher in March, up from 33% in February and 39% in January; only 3% said they were lower.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of materials management at Pitney Bowes, Inc. Said Bretz: "The economy completed the first quarter with moderate, if not substantial, growth. The healthy increase in new orders, particularly export orders, along with the anticipated slowing of price increases, signals continued improvement in the economy in the second quarter."

The **Purchasing Managers' Index** fell slightly to 53.3% from 54.9% in February. This is the third consecutive month the index has fallen. Nevertheless, March is the 20th consecutive month this leading indicator has exceeded 50%. The first quarter average is 55.2%. Past experience indicates that, if this average were to continue for the remainder of 1988, it would be consistent with real GNP growth of about 3.4%. Based on analysis by the U.S. Department of Commerce, the Purchasing Managers' Index tracked accurately to real GNP growth in 1986 and to projected real GNP growth of 4.1% in 1987. The index also showed a high correlation to the actual growth of 4.0% reported by the Department in March. A reading above 50% indicates the economy is generally expanding; below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference, the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

March was the eighth consecutive month employment grew. The difference (+5) between those reporting higher employment (16%) and lower (11%) is slightly larger than last month. Considering normal seasonal increases expected in March, however, these results could be viewed as representing a slight decline.

Employment	% Higher	% Same	% Lower	Net
March	16	73	11	+5
February	15	73	12	+3
January	13	75	12	+1

Buying Policy

Lead times for production materials lengthened considerably, reflecting efforts to combat persistent shortages in selected commodities. In March, 29% of purchasing managers reported lead times of 90 days or longer, sharply higher than 23% in February. Lead times for capital expenditures also lengthened, with 57% of members reporting lead times of six months or more, up from 54% in February and the most since February 1987 (also 57%). Lead times for maintenance, repair and operating (MRO) supplies increased; 81% of members reported lead times of 30 days or less, down considerably from 85% in February and the lowest percentage to so report since July 1987 (also 81%).

	Percent Reporting				
Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
March	14	33	24	23	6
February	13	36	28	19	4
January	14	38	23	19	6
MRO Supplies					
March	35	46	15	3	1
February	34	51	12	3	0
January	36	48	12	3	1
Capital Expenditures					
March	9	6	10	18	57
February	10	5	14	17	54
January	10	5	16	13	56

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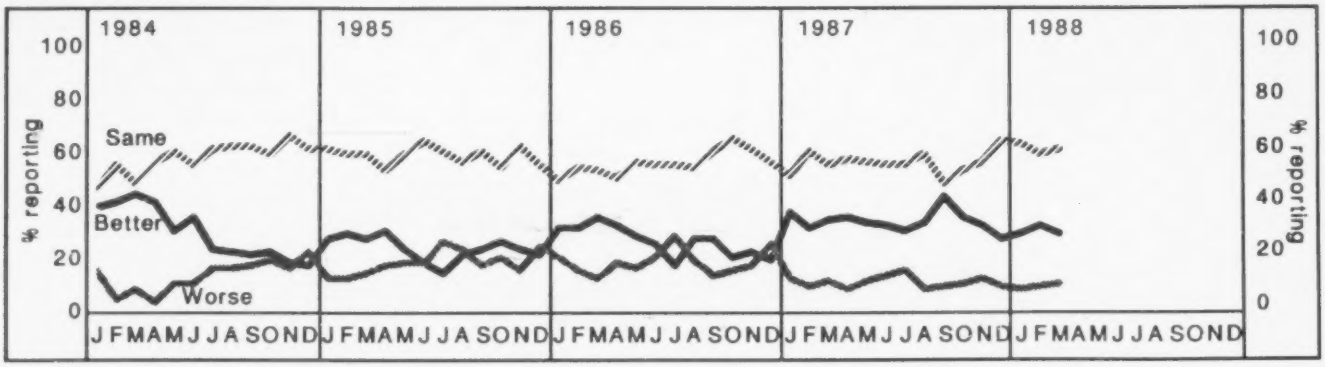
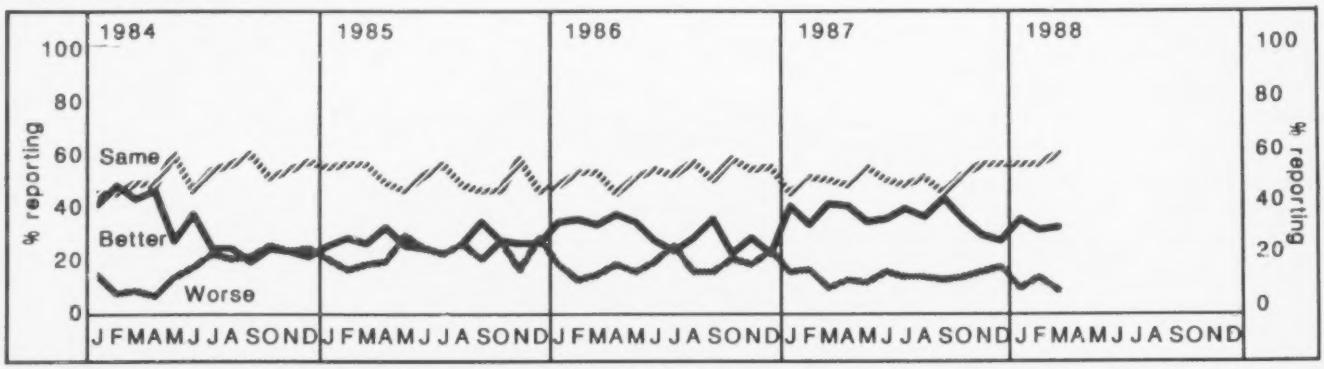
Production



Production expanded for the 15th consecutive month. Although the rate of that growth has slowed over the past six months, it is still very healthy, considering normal seasonal factors.

Production	% Better	% Same	% Worse	Net
March	29	61	10	+19
February	32	59	9	+23
January	29	63	8	+21

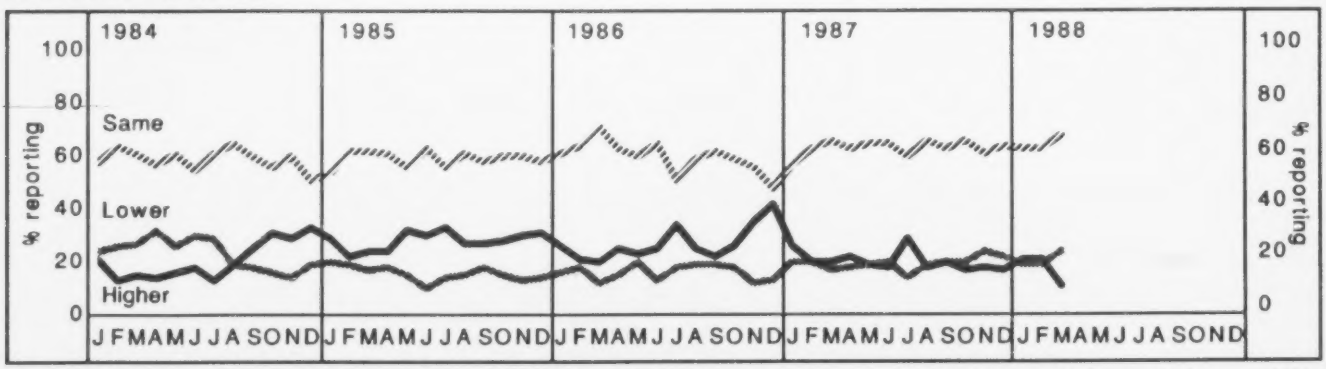
New Orders



March was the 15th consecutive month of growth in new orders. The difference (+24) between those reporting better new orders (32%) and worse (8%) is up sharply from February (+18%). As the lower net difference of February accurately indicated the slowing of production in March, so the significant increase in new orders in March portends a strong rise in production in April. It is apparent from the 41% of exporting companies reporting higher new export orders that exports continue to fuel the economy's expansion while lowering the trade deficit.

New Orders	% Better	% Same	% Worse	Net
March	32	60	8	+24
February	31	56	13	+18
January	35	56	9	+26

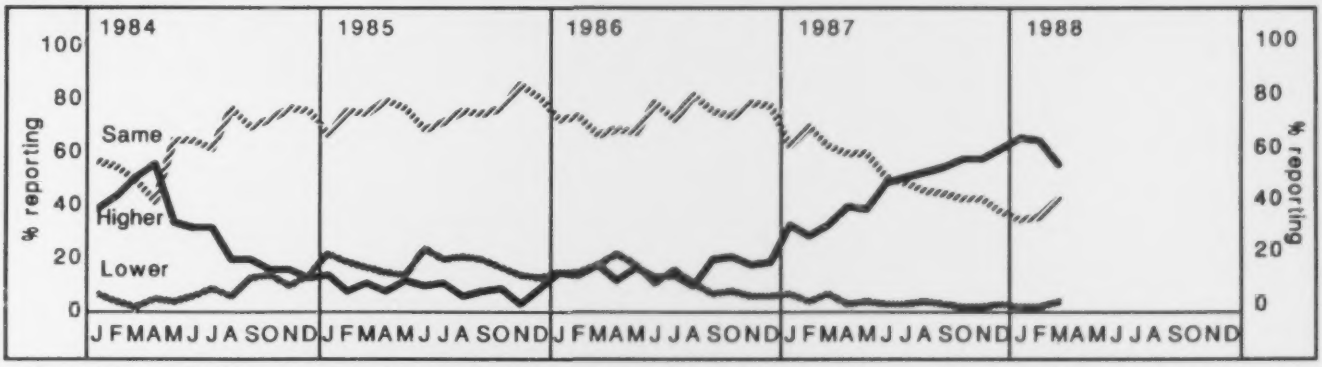
Inventories



Inventories declined sharply in March after growing modestly in the past two months. The difference (−13) between those reporting higher inventories (10%) and lower (23%) is the largest since July 1987 (−15). The 10% reporting higher inventories is the lowest since June 1985. These data should convince skeptics that manufacturers are definitely not building inventories.

Inventories	% Higher	% Same	% Lower	Net
March	10	67	23	−13
February	20	62	18	+ 2
January	20	62	18	+ 2

Prices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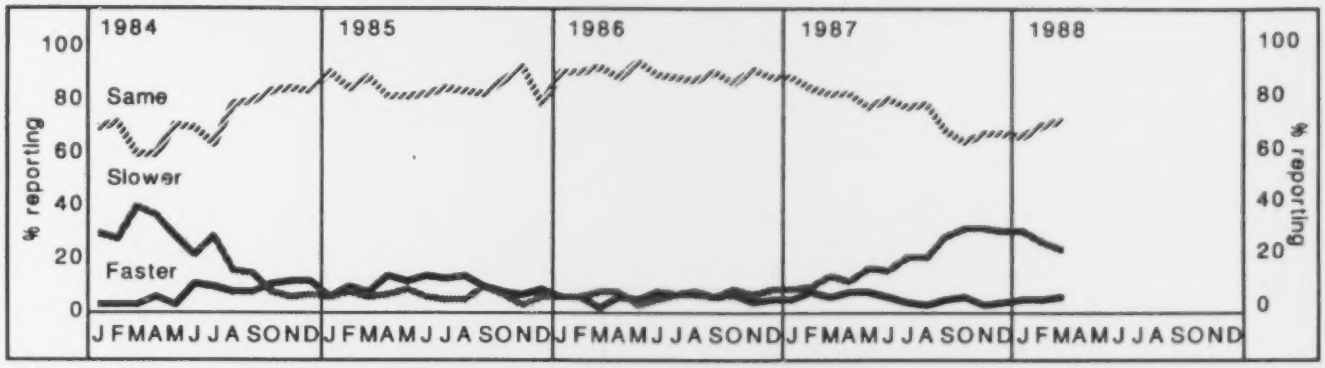
Although March was the 19th consecutive month more purchasing managers reported higher prices than lower, the subtle signs that increases were plateauing, noted in the previous two months, became more obvious. The difference (+52) between those reporting higher prices (55%) and lower (3%), is down significantly from February (+63) and the smallest since September 1987 (also +52). This break is a welcome relief to those who feared the prospects of inflation.

Prices	% Higher	% Same	% Lower	Net
March	55	42	3	+52
February	64	35	1	+63
January	65	34	1	+64

Vendor Deliveries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March was the 18th consecutive month more purchasers reported slower vendor deliveries (23%) than faster (5%). Nevertheless, the easing of the slowing in deliveries noted last month continued in March, a reflection of the slowdown in production.

Vendor Deliveries	% Faster	% Same	% Slower	Net
March	5	72	23	−18
February	4	70	26	−22
January	4	66	30	−26

Specific Commodity Changes

UP IN PRICE: Corrugated shipping containers (23rd time in 24 months), paper products (second consecutive month), printing paper (13th time in 15 months), folding cartons, kraft paper, linerboard (used in making corrugated shipping containers), caustic soda (16th consecutive month; used heavily in paper-making, petroleum refining and soap-making), aluminum (14th consecutive month), brass (fifth consecutive month), copper (12th time in 13 months; some reports of price decreases), copper products, nickel (used heavily in making stainless steel, plating metals and batteries), steel (18th time in 19 months), stainless steel (third consecutive month), steel castings (sixth consecutive month), steel products (fifth consecutive month), cadmium (used heavily in electroplating and making batteries), polyethylene (ninth time in 10 months; used heavily in making packaging materials and paper coatings), ethylene and ethylene derivatives (seventh time in eight months; used heavily in making plastic resins), methanol (fourth consecutive month; used heavily as a solvent and in synthesizing other chemicals), plastic resins (ninth time in 10 months), plastic products (10th time in 11 months) and miscellaneous chemicals (sixth consecutive month).

DOWN IN PRICE: Fuel oil (fourth consecutive month), diesel fuel, natural gas (second consecutive month) and chlorine.

IN SHORT SUPPLY: Aluminum (sixth consecutive month), copper (fourth consecutive month), nickel, steel (12th time in 13 months), hot- and cold-rolled sheets (11th consecutive month), steel plates (eighth time in nine months), steel bars, steel pipe, steel tubing, stainless steel (third consecutive month), printing paper, caustic soda (10th consecutive month), ethylene oxide (used heavily as a fumigant, in sterilizing instruments and in organic syntheses, especially ethylene glycol), titanium dioxide (eighth consecutive month; a lead-free pigment used heavily as a whitener in coatings, paints, paper and other industrial applications), methanol (fourth consecutive month, caused primarily by a plant fire) and DRAMs (electronic memory devices used heavily in computers).

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in six important categories of data: production, new orders, inventories, prices, vendor deliveries and employment. These six components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the six components of *Report on Business* listed above, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the Department of Commerce and is the only part of the report adjusted for seasonal variations.

The next issue of *Report on Business* will be available May 2, 1988.

Commodity Reports

Non-Ferrous Metals

Prepared by the N.A.P.M. Non-Ferrous Metals Committee. Chair: Sharon Sinke, C.P.M., Frost Inc., Grand Rapids, Michigan.

Aluminum: Aluminum prices reached record-high levels on the first of March; they have doubled in the past 18 months. There are conflicting opinions as to whether the price will now remain stable or decrease.

U.S. aluminum primary industries are operating near top capacity, with no new capacity coming on stream in the near future. Demand is expected to remain firm through the second quarter of 1988. Some weakness is expected in new construction, automobiles and appliances, but to offset this, increases are expected in can stock and in foreign aluminum fabricators. The domestic consumption of purchased aluminum scrap reached its lowest level in November. More aluminum scrap was shipped to Japan alone during the first 10 months of 1987 than to all other countries combined. The devaluation of the dollar continues to make aluminum an attractive investment for export.

Although consumers are seeking substitute materials to replace high-priced aluminum, the aluminum industry is not sitting still, but is continuing to promote aluminum for more markets, including automotive applications. Alcoa has been developing an automobile body frame in cooperation with West German Audi. Aluminum cast components include rack-and-pinion power steering pump housings. Cast aluminum wheels, engine blocks and heads are new applications now being promoted. Sheet, extrusions, foil, rod and bar are already being used for various automotive components and new applications for all aluminum products are continually being sought. *(Eleanor Devlin, C.P.M., Reynolds Metals Co., Grand Rapids, Michigan)*

Magnesium: Magnesium shipments for 1987 set an all-time record at 236,000 metric tons. Shipments in the U.S. and Canada showed an increase of 10.4%.

Inventories at year's end were 38,800 metric tons, down 5,700 metric tons from 1986. Pricing is still listed at $1.53/lb. for prime and should continue to hold through the year. Although world demand is increasing for magnesium, the new Norsk Hydro smelter in Quebec is ahead of schedule and should be able to add sufficient tonnage to the world supply to keep up with demand.

Work is still being done on the use of magnesium in engine blocks and transmission housings and, although die casters are very busy, nothing is foreseen in the near future to create enough demand to increase pricing in the next 18 months. All in all, the magnesium market is very stable and will remain so. *(Sharon Sinke, C.P.M., Frost, Inc., Grand Rapids, Michigan)*

Nickel: The price of nickel has accelerated to between $4.58 and $5.21/lb. This is a long way from the "should-be" range of $1.98 to $2.20/lb. In addition, Inco Ltd. of London has just announced a 10% increase in second-quarter prices; current data indicate a trend toward even higher prices.

This market is currently tight, and the demand for stainless steel is very strong. Caution should be exercised in this commodity. *(George R. A. Milne, C.P.M., Delta Faucet Company, Indianapolis, Indiana)*

Tin: During the last six months, tin has been one of the most inactive metals, trading in a narrow range between $3.10 and $3.25. This is expected to be the scenario for the next six months. With the weaker dollar, prices are expected to trend slightly higher, with a ceiling around $3.35. On balance, supplies in New York will be adequate, with possible short-term shortages. *(Anonymous)*

Textiles

Prepared by the N.A.P.M. Textile Committee. Chair: Gerry Korver, C.P.M., K-Products, Inc., Orange City, Iowa. Contributors: Larry N. Parkes, C.P.M., Champion Products, Inc., Rochester, New York; Stanley Albright, C. H. Masland and Sons, Carlisle, Pennsylvania; and Richard Blumenstein, Steelcase, Inc., Grand Rapids, Michigan.

Cotton, Polyester, Greige Goods: Business remains strong, with fleece products continuing to be a very dominant factor. We have concluded the most difficult year in memory from a supply standpoint on yarn. This is now being rectified due to supply catching up with demand and a sloppy general market condition. We have digested substantial price increases affecting yarn for 1988 as a result of supply/demand and raw cotton costs in general.

The strategy most major manufacturers have employed was to commit through the first six to nine months of 1988 based upon the market direction of the third and fourth quarters of 1987. Cotton estimates were off by 1.3 million bales and exports have not been as strong as was originally anticipated. There has been some softening in basic and fashion fleece products, resulting in additional spot availability of yarn. Because of the large number of manufacturers that are contractually committed, no one can effectively take advantage of the current "window of opportunity" and break the market.

Cotton continues to trade within a very narrow range in the low to mid-60s. Some are of the opinion that if the statistical information from the USSR and China is inaccurate, as is suspected, the volume of domestic exportation will increase in response to the favorable dollar exchange. This could increase the cost of cotton by $0.10/lb. or more. Additional cotton will be planted domestically due to the present price structure and a change in the set-aside percentage. This will also have an effect on the speculators when it unfolds.

On February 4, Dupont announced a $0.07/lb. increase in Orlon acrylic effective February 27. They also announced an 8% increase in Antron nylon filament for warp knit application. This was to recover raw material increases they experienced during the past several years. The fiber producers may have drawn the line in the sand and feel they cannot wait any longer. It is suspected that both Monsanto and American Cyanamid will follow.

There have also been recent acetate and rayon increases, averaging 5%. It is no longer a buyer's market and will require close vendor relations and hard bargaining to keep increases below 5% during 1988.

Carpet: The supply of nylon/staple, polypropylene and carpet backing is adequate, with pricing steady. Carpet wool supply is adequate but the pricing is unstable due to currency exchange values. Nylon/filament, acrylic and polyester staple supplies are light, with flexible pricing. Yarn, both space-dyed and spun-dyed, is tight in supply but the pricing is steady.

Specialty Fabric and Converting: Specialty fabrics and converting ended 1987 strong with firm business being carried over into the first quarter of 1988. The price increases that were passed along in late 1987 will remain firm in 1988; however, there should be stable pricing throughout the coming year. The business volume should ease somewhat with specialty fabrics until late spring. Summer's volume should be high; firm up contracts very soon if you want to be assured of meeting your delivery needs for the summer months.